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October 29, 2008

Dick Larsen, Treasurer-Tax Collector/Public Administrator

Office of the Treasurer-Tax Collector/Public Administrator

Central Collections Office

157 W. 5th Street

San Bernardino, CA 92415

SUBJECT: AUDIT OF CENTRAL COLLECTIONS CASH CONTROLS

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed a cash controls audit of the Treasurer-Tax Collector/Public Administrator, Central Collections Office. Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditors.

Background

The Board of Supervisors, by resolution, establishes cash funds for county departments to facilitate their operations. The Board has delegated the County Auditor/Controller-Recorder (ACR) the authority to establish cash funds up to \$2,500. Several different types of cash funds are used throughout the County, including petty cash funds, change funds, and cash shortage funds. Ordinarily, departments use petty cash funds to buy small items, change funds to make customer change and cash shortage funds to reimburse cash shortages that occur during daily operations. Although these cash funds may differ in amount and purpose, the general guidelines governing their establishment, maintenance, dissolution and reconciliation is the same. Departments designate a fund custodian to be in charge of the fund. At all times the fund custodian must be able to account for the fund in the form of cash, vouchers and receipts. Periodically, ACR Internal Audits Section performs surprise cash counts of these cash funds. Upon demand of ACR or the Board of Supervisors, a department's Fund Custodian is to give an accounting of the fund.

ACR has documented some general cash controls in the ICCM for departments with cash funds. However, each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

The Central Collections Office collected more than \$43.1 million for the year ending June 30, 2007. The Majority of these collections are from court ordered fines and Arrowhead Regional Medical Center's (ARMC) delinquent accounts receivable.

Objectives, Scope and Methodology

Our overall objective was to determine whether cash handling controls practiced by the Central Collections Office effectively safeguard cash.

We reviewed internal controls over cash for the period of October 1, 2007 through December 31, 2007. Our audit included surprise cash counts, verification of deposit records, inquiries of staff, observation of cash handling procedures and other audit procedures considered necessary.

Conclusion

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the Central Collections Office were generally effective. However, we identified certain procedures and practices that could be improved. Specifically, controls over the accountability of cash receipts and petty cash approval procedures could be strengthened. We have provided the details of these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to the Central Collections Office on August 20, 2008 and discussed our observations with management on September 3, 2008. The department's responses to our recommendations are included in this report.

Findings and Recommendations

Finding 1: Inadequate Cash Receipting Controls

The Central Collections Office receives a large volume of checks by mail daily. However, a listing of these checks was not created as required by the ICCM on page 6-7.

In addition, the staff member who opened the incoming mail transferred these checks to other staff members for further processing without verification of the transfer. Although staff did have a mitigating control of counting the number of checks they transferred, there is no documentation of this control. Furthermore, when staff transferred these checks, there was no accountability.

By not logging checks received through the mail, the department has no record to verify that its staff properly recorded all cash receipts. In addition, it is difficult for the department to identify and correct errors on a timely basis.

Also, if staff members do not properly transfer custody of checks, management cannot assign accountability for any lost or misappropriated checks.

Recommendation:

We recommend that management require the staff member who opens the mail to count and document the total number of checks received through the mail daily. We also recommend that management require both the person who opens the mail and the person who receives the checks for processing to verify the number and sign for the transfer of checks.

Management's Response:

Central Collections has implemented procedures as recommended.

An additional, significant, existing control should also be noted. Delinquent notices are sent monthly, to all accounts with outstanding balances. If a debtor made a payment that was not applied to their account they will call. This control feature nearly eliminates the likelihood a check would be diverted from appropriate processing.

Auditor's Response:

The Department's actions will correct the deficiencies noted in the finding.

Finding 2: Inadequate Petty Cash Approval

On two occasions during the audit period, a Supervisor approved his own petty cash expenditure: the reimbursements were for \$97.19 and \$26.99. Per page 4-8 of the ICCM, only an authorized employee of a higher-ranking job code than the requestor may approve the petty cash voucher. This practice prevents unauthorized use of petty cash. In addition, the department's petty cash procedures did not include this criterion.

Without an approval from a higher-ranking employee, a Supervisor could receive reimbursement for unauthorized expenditures through the petty cash fund.

Recommendation:

We recommend that management enforce the current rule in the ICCM stating that all petty cash reimbursements must be approved by an authorized employee of a higher job code than the requestor. In addition, it is recommended that management revise the current departmental petty cash policy to match the ICCM rules regarding petty cash approvals.

Management's Response:

Central Collections agrees with the finding and recommendation. Since the surprise cash count, the fund custodians have been trained on the County's policy regarding petty cash approvals.

Auditor's Response:

The Department's actions will correct the deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Howard Ochi, CPA
Chief Deputy Auditor
Internal Audits Section

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